SaskTel

Consolidated Financial Statements of

SECURTEK MONITORING SOLUTIONS INC.

December 31, 2001

102-05027/

PRICEWATERHOUSECOOPERS

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Auditors' Report

**To the Members of the Legislative Assembly,
Province of Saskatchewan**

We have audited the consolidated statement of financial position of **SecurTek Monitoring Solutions Inc.** as at December 31, 2001 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31 (Thousands of dollars)	2001	2000
Operating revenues	$ 7,329	$ 3,655
Operating expenses	5,728	3,659
	1,601	(4)
Depreciation and amortization	2,476	1,209
Interest expense	471	309
Net loss	$ (1,346)	$ (1,522)

CONSOLIDATED STATEMENT OF DEFICIT

Year ended December 31 (Thousands of dollars)	2001	2000
Deficit, beginning of year	$ (2,770)	$ (1,248)
Net loss	(1,346)	(1,522)
Deficit, end of year	$ (4,116)	$ (2,770)

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31
(Thousands of dollars)

	2001	2000
Assets		
Current assets		
Cash	$ 663	$ 386
Accounts receivable	869	715
Due from Saskatchewan Telecommunications	381	328
Prepaid expenses	37	42
	1,950	1,471
Capital assets (Note 4)	3,153	2,034
Customer accounts (Note 5)	18,912	13,203
Deferred development costs (Note 6)	517	599
	$ 24,532	$ 17,307
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 892	$ 1,446
Deferred revenue	910	864
	1,802	2,310
Obligations under capital leases (Note 10)	26	51
Long-term debt (Note 7)	13,813	9,024
	15,641	11,385
Shareholder's equity		
Share capital and contributed surplus (Note 11)	13,007	8,692
Deficit	(4,116)	(2,770)
	8,891	5,922
	$ 24,532	$ 17,307

See Accompanying Notes

On behalf of the Board

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (Thousands of dollars)	2001	2000
Cash provided by (used in):		
Operating activities		
Net loss	$ (1,346)	$ (1,522)
Items not affecting cash from operations	2,476	1,209
Net change in non-cash working capital items	(710)	950
	420	637
Financing activities		
Obligations under capital leases	-	90
Repayment of obligations under capital leases	(25)	(19)
Saskatchewan Telecommunications Holding Corporation (Note 7)	4,789	5,971
Contributed surplus (Note 11)	4,315	2,541
Share capital (Note 11)	-	3,154
	9,079	11,737
Investing activities		
Capital expenditures	(1,914)	(1,476)
Customer accounts	(5,431)	(2,832)
Business acquisitions (Note 3)	(1,784)	(8,035)
Deferred development costs	(93)	(127)
	(9,222)	(12,470)
Increase (decrease) in cash	277	(96)
Cash, beginning of year	386	482
Cash, end of year	$ 663	$ 386
Interest paid	$ 471	$ 309

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- The Corporation

SecurTek Monitoring Solutions Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan and is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of providing real time monitoring solutions.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 -- Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Grenfell Holding, Inc. and SecurTek Partnership No. 3. All significant intercompany transactions and balances have been eliminated.

Revenue recognition
Revenues from the monitoring of alarm systems are recognized when services are performed. Installation revenue is recognized in the month in which the systems are installed.

Capital assets
Capital assets are recorded at cost less accumulated amortization. Amortization is computed on a straight-line basis over the following periods:

Leasehold improvements and software	5 years
Furniture and equipment	4 to 5 years
Customer premise equipment	3 years

Customer accounts
Customer accounts are recorded at cost, which relates to monitoring revenues attributed to these accounts. Customer accounts are amortized using the straight-line method over 10 to 12.5 years using rates that will reduce the cost to any estimated residual value over the estimated useful life.

Deferred development costs
Business development costs incurred during the start-up phase are deferred and amortized over five years.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Business acquisitions

During 2001 SecurTek Monitoring Solutions Inc. acquired customer monitoring accounts for a total consideration of $1.5 million. The fair value of the identifiable assets and liabilities acquired were $1.6 and $0.1 respectively.

In the prior year, all the outstanding shares of Holdfast Holding Inc. were purchased by Grenfell Holding Inc., a wholly owned subsidiary of SecurTek Monitoring Solutions Inc for a total net consideration of $7.8 million. The business acquired provides retail and wholesale monitoring services in Manitoba and Alberta.

Note 4 -- Capital assets

	2001	2000
	(Thousands of Dollars)	
Office furniture, equipment, and leaseholds	$ 458	$ 464
Computer hardware and software	1,905	1,063
Customer premise equipment	2,041	963
	4,404	2,490
Less accumulated depreciation	1,251	456
	$ 3,153	$ 2,034

Note 5 -- Customer accounts

	2001	2000
	(Thousands of Dollars)	
Customer accounts	$ 21,143	$ 13,928
Less accumulated amortization	2,231	725
	$ 18,912	$ 13,203

Note 6 -- Deferred development costs

	2001	2000
	(Thousands of Dollars)	
Deferred development costs	$ 865	$ 772
Less accumulated amortization	348	173
	$ 517	$ 599

Note 7 – Long-term debt

Amounts due to Holdco bear interest at the Province of Saskatchewan ninety-day borrowing rate with no fixed repayment terms. Accordingly, the amount due has been classified as long-term.

Note 8 – Financial instruments

The carrying amounts of cash, accounts receivable and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The fair value of long-term debt and obligations under capital leases approximates their carrying value due to current incremental borrowing rates for similar borrowing arrangements.

Note 9 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2001	2000
	(Thousands of dollars)	
Operating revenues	$ 27	$ 1
Operating expenses	445	400
Accounts payable	157	574
Accounts receivable	381	328

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 10 -- Commitments

The future minimum lease payments under the capital and operating leases of the Corporation are as follows:

	Capital	Operating
	(Thousands of dollars)	
2002	$ 25	$ 107
2003	$ 13	$ 41
2004	$ 7	$ 14

Aggregate future minimum capital lease payments	$ 45
Portion representing implied interest	5
Capital lease obligations	40
Less current portion included in account payable	14
Long-term portion	$ 26

Capital leases expire over the periods February 2003 and September 2004 and incur interest between 8.93% and 9.30%. Interest expense on capital lease obligations during the year totaled $5,368 (2000-$7,098).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 -- Share capital and contributed surplus

	2001	2000
	(Thousands of dollars)	
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 6,150,000 shares	$ 6,150	$ 6,150
Contributed surplus	6,857	2,541
	$13,007	$ 8,691

In the prior year share capital was reported at $100 and 100 issued shares. During the year, the Corporation retroactively reallocated $6,149,900 of contributed surplus to share capital resulting in an additional 6,149,900 issued shares.